

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

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Notice of Inquiry re: Ratepayer Parity Trust Fund)	D.T.E. 01-45
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**REPLY COMMENTS OF MASSACHUSETTS ELECTRIC COMPANY
AND NANTUCKET ELECTRIC COMPANY**

Massachusetts Electric Company and Nantucket Electric Company (collectively “Mass. Electric” or “Company”) submit the following reply comments to the Department in the ratepayer parity trust fund docket captioned above.

Use of the Trust Funds

Mass. Electric notes that the commenters agreed that ratepayers would benefit if the fund was used either to lessen the amount of a utility’s deferrals or otherwise lessen transition costs for customers. What commenters did not agree on was how the amounts in the fund would be disbursed.

Trust Disbursement

As stated in its initial comments, Mass. Electric recommends that monies from the fund be disbursed in relation to the amounts attributable to the contribution of each utility. Mass. Electric Comments p. 2. Mass. Electric pointed out that because the fund is made up of tax payments from the sale of generating assets, these tax payments would have otherwise been available to reduce the

transition costs that customers pay. Western Massachusetts Electric Company agreed with this approach. Western Mass. Electric Comments pp. 5-6. Fitchburg Gas & Electric Company (“Fitchburg”) recommended that the fund be disbursed such that the relative long-term cost deferral burdens are equalized across the various utilities or eliminated. Fitchburg Comments p. 7. NStar also recommends potential cross-subsidization, stating in response to the Department’s Question 5 that upon termination of the fund, if all monies have not been expended, one appropriate use of the remaining funds would be to offset any then-existing accumulated deferrals that were necessary to meet the required rate reductions on a customer-by-customer basis. NStar Comments p. 3.

Fitchburg argues in its initial comments for a mechanism which allocates the funds to those utilities which have the largest cost deferral relative to revenues. Every utility in Massachusetts has deferred large amounts of costs, however, from either transition obligations or purchase power procurement. For Mass. Electric, these deferrals are likely to remain on its books of account, accumulating interest, without the use of funds from the Ratepayer Parity Trust Fund in 2002. Thus, Mass. Electric should be able to return monies originally funded by its own customers in order to reduce long-term cost deferrals before another utility may claim these funds. If Mass. Electric can eliminate its deferrals without money remaining in the fund attributable to Mass. Electric, then another utility’s customers may benefit.

The distribution companies reported the following amounts in the fund attributable to their taxes:

Distribution Company	Amount
Boston Edison Company	\$17,800,302

Distribution Company	Amount
Cambridge Electric Company, Commonwealth Electric Company	\$0
Fitchburg Gas & Electric Company	\$44,844
Massachusetts Electric Company Nantucket Electric Company	\$47,008,287
Western Massachusetts Electric Company ¹	\$1,856,587

Given the relative size of each company and its number of customers, on a per customer basis, Mass. Electric customers have contributed significantly more to the fund than the ratepayers of other utilities.

Mass. Electric notes that Commonwealth Electric Company and Cambridge Electric Company have requested tax treatment of their generation asset sales which would eliminate state tax obligations. The remaining utilities have paid taxes on the gain on their sales. Unfortunately, a tax audit by the state will not resolve this issue for many years. It would be unfair to the customers of other utilities if Commonwealth Electric Company and Cambridge Electric Company could receive funds from the trust while attempting to minimize their tax obligation prior to a final determination by the Department of Revenue.

If the Department allows cross-subsidization, the customers of Cambridge Electric Company and Commonwealth Electric Company will receive an unfair advantage over the customers of the other companies. Their transition costs have already been reduced by the entire amount of net proceeds

¹Western Mass. Electric reported in its submission a taxable gain of \$28,562,877. At a tax rate of 6.5%, Mass. Electric is estimating a contribution to the fund for Western Mass. Electric of \$1,856,587.

resulting from the asset sale. This contrasts with the ratepayers of Mass. Electric, who did not receive the rate reduction they would have if Mass. Electric's affiliates had not paid \$47 million in taxes on its asset sale, but rather applied all proceeds, net of costs, to lower its transition charge. Or, if the Department were to follow Fitchburg's recommendation of ranking the utilities based on their level of long-term cost deferral balances relative to their most recent level of annual retail revenues, utilities could defer their costs to better their ranking and subsequently have the deferrals effectively paid for by the ratepayers of other utilities. Given the actual contributions to the fund by the various distribution companies, it would be unfair and inequitable to ratepayers to disburse the fund in any way but in proportion to the contributions made by each distribution company.

Respectfully submitted,
MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
By their attorney,

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Dated: July 20, 2001